

City of Detroit


CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director 

DATE: April 24, 2007

RE: Fiscal Impact of the Act 312 Arbitration Award for the Detroit Police Officers Association (DPOA) ***Line Item 49 on Today's Calendar***

Council requested that the Fiscal Analysis Division staff review the recent Act 312 Arbitration award for the DPOA for the financial impact on the city. I received and reviewed a copy of the Opinion and Award in the matter of the Act 312 Arbitration between the Detroit Police Officers Association and City of Detroit. This document provides a summary of the issues presented by each side, the rationale for the arbitrator's decision, and the actual decision of the arbitration panel.

The cost analysis is shown for both the DPOA and the resultant cost or savings due to other labor agreements, specifically parity with the Detroit Fire Fighter's Association (DFFA). The majority of uniform employees of the City of Detroit are represented by one of the following four unions, Detroit Police Officers Association, Lieutenant's and Sergeant's Association (LSA), Detroit Police Command Officer's Association (representation status currently under review) (DPCOA), and the Detroit Fire Fighter's Association.

Due to the relationship between titles represented by these organization and past labor relation decisions and negotiations there are certain conditions that when awarded to one group may carry over or apply to others.

In summary for the costing estimates:

The DFFA has parity on all economic issues with the DPOA. Therefore any economic awards or decisions made with the DPOA will apply to the DFFA members at the aligned ranks.

The LSA has a "maintenance of differential" clause that requires rate adjustments for LSA members if an award to the DPOA would reduce the differential below certain levels between ranks. This applies only to the salary portion of the contract, not all economic issues. At the present time the pay increases negotiated or awarded to the LSA has expanded the differential enough that the

current Act 312 DPOA award will not require adjustment to LSA member rates until possibly the final year, 2008-09 of the DPOA award. The LSA is currently in the negotiation/arbitration process with the city.

Therefore, in addition to the direct costs of the Act 312 DPOA award on the members of that bargaining unit, some of the decision will be applied to member of other bargaining units. The following items that will apply to other bargaining units and have been estimated as to cost or savings in a similar fashion as for DPOA members:

All of the economic changes, salaries, pension, and benefits changes will be applied to approximately one half of the members of the DFFA, estimated @ 650 for costing purposes. The one half of the total members relates to associated ranks between the DPOA and DFFA.

No costs or savings will be estimated for LSA members as the maintenance of differential clause will not require rate adjustments due to the DPOA award. The benefit plan redesign and cost sharing will not apply to LSA until agreed upon by the bargaining unit and city, or it is awarded by an arbitration panel.

No costs or savings will be estimated for the DPCOA as there is not a "maintenance of differential" requirement, and their representation status is under review.

In the area of wages, the award granted the City's last best offer, but this grants wage increases to the DPOA over the same period of time that civilian unions and unrepresented employees have taken pay reductions, not an equitable situation.

I would judge the award as favorable to the City in the area of health care plan design and cost sharing. The award mirrors the plans accepted or imposed on civilian employees during the last contract negotiation period.

In my analysis the arbitration panel's decision to reduce the years of service required for DPOA members to qualify for retirement, from 25 to 20 years, is an item that will be very costly to the City and moves in the opposite direction from the rest of the world. The City did propose moving to a defined contribution pension plan, the direction the majority of employers are moving, but the arbitration panel rejected this concept. This item alone may add more than \$6 million per year just for the normal cost of pensions for the DPOA. To this amount I believe a large new unfunded accrued actuarial liability (UAAL) will be created and funded over the next 15 to 30 years. Council will remember during the financing of the existing UAAL discussions with Certificates of Participation (COP), one of the cautions put forth, was not to grant benefit increases that will create new UAAL until such time as the proposed Certificate of Participation are paid off.

The following table estimates the cost or savings of the award with a breakdown by individual items awarded. The estimates are based on 2006-07 budgeted numbers for most items. Salary increases are projected over the life of the agreement. Other items are shown at 2006-07 estimates, which are representative of the costs for each subsequent year.

Due to the timing of the award, I do not anticipate any savings from the decision on hospitalization/dental/eye care plan redesign and cost sharing. I do not believe this can be implemented retroactively and without holding an open enrollment period for the members to select benefits based on costs. The chart shows what the estimated cost or savings would be if the benefit plan re-design and cost sharing were applied all year on the second from last line. And the estimate without those savings included on the last line.

Summary of Act 312 DPOA Arbitration Award				
		DPOA	DFFA	TOTAL
Wages				
	2006-07	\$1,862,718	\$465,680	\$2,328,398
	2007-08	8,240,427	2,060,107	\$10,300,534
	2008-09	14,228,526	3,557,132	\$17,785,658
	Total	\$24,331,671	\$6,082,919	\$30,414,590
Excused Time-Good Friday		238,810	59,703	298,513
Excused Time-Easter		477,620	119,405	597,025
Legal Representation		100,000	0	100,000
Sick Leave		532,124	157,700	689,824
Shift Differential		210,745	84,705	295,450
Pension Provision		151,044	37,761	188,805
Hospitalization/Dental/Eye Care		(4,037,299)	(973,044)	(5,010,343)
2006-07 Cost, If all changes applied all year		(464,238)	(48,090)	(512,328)
2006-07 Cost, Assuming hospitalization and other cost savings not applicable to 06-07 due to implementation time required		\$3,573,061	\$924,954	\$4,498,015
2007-08 Cost, Assuming all changes applied all year		\$5,913,470	\$1,546,337	\$7,459,807

As can be seen, I estimate that the DPOA Act 312 Arbitration Award that applies to the DFFA as well because of parity will cost the General Fund budget for the current year 2006-07 as follows:

- Assuming hospitalization and other cost savings apply in 2006-07:
\$(512,300) in net savings
- Assuming hospitalization and other cost savings do not apply in 2006-07:
\$4.5 million

I estimate the total impact to the General Fund in 2007-08 as follows:

- Assuming hospitalization and other cost savings apply in 2007-08:
\$7.46 million

For Council's edification, I have enclosed our detailed spreadsheets costing out the estimates with the assumptions used.

Attachments

cc: Council Divisions
Auditor General's Office
Roger Short, Chief Financial Officer
Pamela Scales, Budget Director
Kandia Milton, Mayor's Office

Sum-DPOA

Summary of Act 312 DPOA Arbitration Award					
DPOA ISSUES		For Salary Only			
		2006-07	2007-08	2008-09	Total
1 Wages-Article 41		\$1,862,718	\$8,240,427	\$14,228,526	\$24,331,671
2 Pension Provision - Article 33					
3 Pension Provision - Article 33		\$3,824,781	This includes 1.9% Normal Cost, and 1.18% UAAL on a 30 Year amortization		
Reduce the current 25 years of service for retirement to 20 years			Will first be required in 2007-08 if actuary study is re-done.		
4 Pension Provision - Article 33					
Retiree Annuities					
5 Pension - Article 33					
6 Hospitalization - Article 21					
7 Restricted Leave - Article 18					
8 Excused Time - Article 32		\$238,810			
Four Hours Good Friday					
9 Excused Time - Article 32		\$477,620			
Eight Hours Easter					
10 Uniforms - Article 19					
11 Legal Representation Indemnification - Article 28		\$100,000			
Reimburse DPOA up to \$100,000 annually for officers criminally charged but not found guilty					
12 Sick Leave - Article .35		\$532,124			
Increase Sick Leave pay from current 60% to 70%					
13 Bonus Vacation - Article 37					
14 Emergency/Excused Leave Days - Article 25					
15 Vacation Selection and Cancellation - Article 22					
16 Shift Differential Article 30		\$210,745			
Increase Current Afternoon Premium from \$.40 to \$.50 (25% increase), and Midnight from \$.50 to \$.60 (20% increase)					
17 Educational Reimbursement - Article 20					
Increase annual amounts for education					
18 Overtime - Article 14					
Up to eight hours overtime for medical treatment extending past officer's shift					
19 Me Too - Article 48					
20 Pension Provisions - Article 33		\$151,044			
Members can purchase up to 3 years pension credit for military time.					
21 Overtime - Article 14					
Members option to accept compensary time in lieu of pay for up to 480 hours.					
City Issues					
22 Seniority - Article 10					
Member with less than 3 years cannot submit transfer requests					
23 Discipline - Article 9, G					

Sum-DPOA

	Deals with probationary evaluation, extension of probation or dismissal						
24	Seniority (Homicide Exempt) - Article 10 Add section as exempt for transfer request based on seniority						
25	Seniorty (Bomb Diposal Exempt) - Article 10 Add section as exempt for transfer request based on seniority						
26	Miscellaneous (First Time Marijuana Use) - Article 40						
27	Miscellaneous (Canine) - Article 40 Canine unit members must return dog and equiment under age of 5 years						
28	Pension - Actuarial Assumptions - Article 33 Separate DPOA members costs in pension system, actuarial stydy						
29	Pension - Elimination of Escalator - Artilce 33						
30	Pension - Define Contribution - Article 33 Require all future time of current and new hires to be credited to defined contribution plan						
31	Outside Employment - Article 14 Require Liability Insurance for members working private security.						
32	Hospitalization, Medical Dental and Optical Care - Article 21(c) Cost Sharing of 20% (10% for BC/BS PPO)	\$(\$3,804,564)	Hospitalization Only				
		\$(\$4,037,299)	Hospitalization, Dental, Eye Care				

DPOA-Detail

ACT 312 DPOA ARBITRATION AWARD MADE MARCH 2007 COVERING JULY 1, 2004 THRU JUNE 30, 2009															
DPOA ISSUES		AWARDED		Costing using \$47,762, 7/1/06 After 5 years rate, 2,600 Members (page 133 of award states 2,300 to 2,900 officers)											
								2006-07 Cost		2007-08 Cost		2008-09 Cost		Award Period Cost	

DPOA-Detail

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DPOA-Detail

27	Miscellaneous (Canine) - Article 40	Split		While savings or cost were argued, cannot determine at this time															
	Canine unit members must return dog and equipment under age of 5 years																		
28	Pension - Actuarial Assumptions - Article 33	Union		Status Quo															
	Separate DPOA members costs in pension system, actuarial study																		
29	Pension - Elimination of Escalator - Article 33	Union		Status Quo															
30	Pension - Define Contribution - Article 33	Union		Status Quo - Lost opportunity costs															
	Require all future time of current and new hires to be credited to defined contribution plan																		
31	Outside Employment - Article 14	Union		Status Quo - No cost, continues expose for City															
	Require Liability Insurance for members working private security.																		
32	Hospitalization, Medical Dental and Optical Care - Article 21(c)	City		Budget	DPOA Portion	Savings													
	Cost Sharing of 20% (10% for BC/BS PPO)																		
			Hosp	27,037,568	74.06%	19%													
			Hosp, dental & Optical	28,691,522	20,024,023	(\$3,804,564)	DPOA currently shares only .9%												
				28,691,522	21,248,941	(\$4,037,299)													

Summary of Act 312 DPOA Arbitration Award					
DPOA ISSUES		For Salary Only			
		2006-07	2007-08	2008-09	Total
1	Wages-Article 41	\$465,680	\$2,060,107	\$3,557,132	\$6,082,918
2	Pension Provision - Article 33				
3	Pension Provision - Article 33	\$1,018,432	This includes 1.9% Normal Cost, and 1.18% UAAL on a 30 Year amortization		
	Reduce the current 25 years of service for retirement to 20 years		Will first be required in 2007-08 if actuary study is re-done.		
4	Pension Provision - Article 33				
	Retiree Annuities				
5	Pension - Article 33				
6	Hospitalization - Article 21				
7	Restricted Leave - Article 18				
8	Excused Time - Article 32	\$59,703			
	Four Hours Good Friday				
9	Excused Time - Article 32	\$119,405			
	Eight Hours Easter				
10	Uniforms - Article 19				
11	Legal Representation Indemnification - Article 28	\$0			
	Reimburse DPOA up to \$100,000 annually for officers criminally charged but not found guilty				
12	Sick Leave - Article .35	\$157,700			
	Increase Sick Leave pay from current 60% to 70%				
13	Bonus Vacation - Article 37				
14	Emergency/Excused Leave Days - Article 25				
15	Vacation Selection and Cancellation - Article 22				
16	Shift Differential Article 30	\$84,705			
	Increase Current Afternoon Premium from \$.40 to \$.50 (25% increase), and Midnight from \$.50 to \$.60 (20% increase)				
17	Educational Reimbursement - Article 20				
	Increase annual amounts for education				
18	Overtime - Article 14				
	Up to eight hours overtime for medical treatment extending past officer's shift				
19	Me Too - Article 48				
20	Pension Provisions - Article 33	\$37,761			
	Members can purchase up to 3 years pension credit for military time.				
21	Overtime - Article 14				
	Members option to accept compensary time in lieu of pay for up to 480 hours.				
City Issues					
22	Seniority - Article 10				
	Member with less than 3 years cannot submit transfer requests				
23	Discipline - Article 9, G				
	Deals with probationary evaluation, extension of probation or dismissal				
24	Seniority (Homicide Exempt) - Article 10				
	Add section as exempt for transfer request based on seniority				
25	Seniority (Bomb Disposal Exempt) - Article 10				
	Add section as exempt for transfer request based on seniority				

Sum-DFFA

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ACT 312 DPOA ARBITRATION AWARD MADE MARCH 2007 - Applied to DFFA Members Affected COVERING JULY 1, 2004 THRU JUNE 30, 2009													
DPOA ISSUES	AWARDED	Costing using \$47,762, 7/1/06 After 5 years rate, 650 Members (estimated 1/2 of DFFA members in caparable ranks)											
										2006-07 Cost	2007-08 Cost	2008-09 Cost	Award Period Cost
1 Wages-Article 41	City	Effective 7/1/04	0%										
		Effective 7/1/05	0%										
		Effective 7/1/06	0%										
		Effective 1/1/07	3%			\$47,762	650	\$31,045,300	1.50%	\$465,680	\$931,359	\$931,359	\$2,328,398
		Effective 7/1/07	2%			\$49,194	650	\$31,976,100	2%		\$639,522	\$639,522	\$1,279,044
		Effective 1/1/08	3%			\$50,177	650	\$32,615,050	1.50%		\$489,226	\$978,452	\$1,467,677
		Effective 7/1/08	3%			\$51,682	650	\$33,593,300	3%			\$1,007,799	\$1,007,799
										\$465,680	\$2,060,107	\$3,557,132	\$6,082,918
2 Pension Provision - Article 33	City	Status Quo - No Increased Cost											
3 Pension Provision - Article 33	Union	City Estimated \$10,000,000						Budget Fire Salaries	\$66,131,923	Normal Pension	24.80%	Normal Cost	1.90%
												UAAL 14 Yrs	2.07%
												UAAL 30 Yrs	1.18%
Reduce the current 25 years of service for retirement to 20 years		Union testified this was too high						DFFA-DPOA Aligned	\$33,065,962	50.00%		Normal Cost	\$628,253.28
												UAAL 14 Yrs	\$684,465.41
												UAAL 30 Yrs	\$390,178.35
													\$1,312,718.69
													\$1,018,431.63
								Plus UAAL created, unable to determine, would require actuary					?????
4 Pension Provision - Article 33 Retiree Annuities	Union	Union and Trustees contend no City Cost City contends that since negative interest returns are not allocated, there will be a cost, but did not provide a estimate. Lacking better detail, unable to determine potential costs.											
5 Pension - Article 33	City	Status Quo - No Increased Cost											
6 Hospitalization - Article 21	City	Status Quo - No Increased Cost											
7 Restricted Leave - Article 18	City	Status Quo - No Increased Cost											
8 Excused Time - Article 32 Four Hours Good Friday	Union	\$47,762 \$22.96	4	650		\$59,703							
9 Excused Time - Article 32 Eight Hours Easter	Union	\$47,762 \$22.96	8	650		\$119,405							
10 Uniforms - Article 19	City	Status Quo - No Increased Cost											
11 Legal Representation Indemnification - Article 28 Reimburse DPOA up to \$100,000 annually for officers criminally charged but not found guilty	Union	No Estimate - Lack of Data on Number of Officers charged and cleared over any period of time. Arbitrators determined the \$100,000 is for all officers for the year, therefore \$100,000 annual cost. DPOA indicated that between July 1998 and June 2005, the DPOA average has been \$80,000.											
12 Sick Leave - Article .35 Increase Sick Leave pay from current 60% to 70%		This is a 16.6% increase in the benefit. Budget for this item is						Budget	1,900,000	DFFA-DPOA aligned portion 50.00%	16.60%		\$157,700
13 Bonus Vacation - Article 37	City	Status Quo - No Increased Cost											

4/24/2007

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